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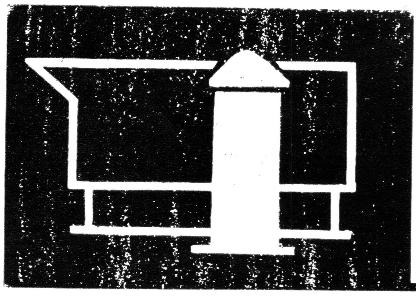

Managing the Farm in 1966

by H. B. Howell

THREE RESOURCES – land, labor, and capital–have always been essential to an Iowa farm business. But a fourth resource–management–is playing an increasingly bigger role in determining Iowa farmers' net income.

Management is not easy to identify, but it is essential. Its role in the modern-day farm business is shown by farm income data gathered from the farm businesses cooperating in the Iowa State University College of Agriculture's Extension Farm Management program (table 1).

All farms were sorted by size and then divided into the high and low profit group within each size division.

For the period 1936-40 the difference in net income between the high and low profit group amounted to $3,405. Note that there were only relatively small differences in resources used measured in acres and total capital. In the 1960-64 period, with the increase in size of farm, value of assets and net income, the difference in net income between the high profit and low profit group of farms had increased to $10,154, with acres and total capital nearly the same between the two groups.

The management factor, as reflected in high yields, feed conversion efficiency, enterprise combination, marketing and cost control, accounted for a difference in net income of $10,000 per year.

Last year will no doubt best be remembered for its $30 hogs, its favorable cattle feeding margins, and its dry weather during August and heavy rainfall in September. In total, 1965 net income per farm was up sharply from 1964. And when complete data are available, the differences between the high profit and low profit farms of the same size, regardless of how you measure size, will be even greater than during 1960-64.

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Profitable Farming . . .

Surveying the outlook for farm prices for 1966, the opportunities to improve income are probably more closely related to improved efficiency than to potential price increases. The current favorable hog prices will undoubtedly result in increased production by the middle of 1966 and increased marketings by late 1966. With as many or more cattle being fed and feeder prices up considerably over 1964, cattle feeding margins may be smaller. On the other hand, those with beef cow herds and selling feeders have found their profit margins increasing during the fall of 1965.

A large feed grain crop with lower support prices and the sharply higher supply of soybeans indicate lower feed prices for 1966. This will favor the operator who buys considerable feed. This will also mean lower income for those who produce cash crops unless their yields increase enough to offset the lower prices.

As costs continue to rise, improved profits in many farm businesses are going to depend on increased volume or lower fixed costs per unit of production. This may come about by increasing the size of business through farming additional land, handling a larger volume of livestock or by increasing the productivity of the resources now used. Whichever method or combination of methods is used in expanding, cost control and added income per added unit of input will be the real keys to success. *Increased volume without adequate cost control can create losses as fast as increased volume with cost control and good management can improve profits.*

Crops . . .

In 1966 corn and soybeans will again be high return crops for most Iowa farmers. High volume of production per hour of labor – made possible by mechanization and new advances in technology – make this phase of the farm business one of the most efficient. Thus, maximum

TABLE 1. Acres, total investment and net income differences for high profit and low profit farms in record associations for two periods, 1936-40 and 1960-64.

1936-40	High profit ⅓ of farms	Low profit ⅓ of farms	Differences
Acres per farm	289 A.	265 A.	24 A.
Total capital invested	$ 46,400	$ 39,800	$ 6,600
Net income	$ 5,435	$ 2,030	$ 3,405
1960-64			
Acres per farm	322 A.	309 A.	13 A.
Total capital invested	$147,700	$140,000	$ 7,700
Net income	$ 17,585	$ 7,431	$10,154

acreage of the high income crops – corn and soybeans—consistent with good erosion control will dominate most profitable land use systems. In addition, returns from inputs of the variable costs, such as seed, fertilizers, pesticides, and insecticides, will be high on the list of profitable capital uses.

The Food and Agriculture Act of 1965 extends the feed grain program with few basic changes. As soon as the regulations become available, you should evaluate the program's application to your farm. Budgeting the income from participation and non-participation—acres × expected yield × expected price less variable costs (seed, fertilizer, fuel and other costs related directly to current production) – can help you better analyze this decision for 1966.

In addition, you ought to evaluate the opportunity to participate in the cropland adjustment program under the new act. You can enter into long-term agreements (5 to 10 years) to divert designated surplus crop acreage. As the details of this phase of the program become available, develop alternative budgets considering its effect on total income and total costs over the span of the contract rather than just considering the variable costs.

Livestock . . .

The role of livestock in the farm business will continue to be of major importance. Full-time farm operators can profitably devote no more than six months per year to crop production. Livestock provides the opportunity for full employment, for a better market for many of the crops produced, for the use of many unmarketable crops and crop residues plus the profitable use of additional capital and management.

The hog enterprise will be one of the top profit enterprises again in 1966 as it was in 1965. Some increase in total production is anticipated by late 1966. But during the first half of the year, prices should average well above 1965 levels for the same period. Probably no livestock enterprise responds as rapidly to improved management as the hog enterprise. Top profits in 1966 will be closely related to feed conversion rates, disease control and time of marketing. Price levels will be high enough to give top returns for the added inputs needed to increase efficiency.

With continued large supplies of beef in prospect for 1966 and the higher cost of feeders, beef feeding profits will depend on several factors. One will be how well the cattle were bought in the fall of 1965. But a well-planned feeding program to achieve economical gains plus marketing at the weight and carcass quality that the consumer wants will also be keys to profits in 1966. With larger cattle feeding enterprises, the return on the added effort to achieve small gains in efficiency are now much greater to the individual feeder.

The lower feeder cattle prices in the fall of 1964 brought some reduction in beef cow numbers in 1965. But it appears now that this situation has changed. More breeding animals are being added to beef cow herds, giving additional strength to beef cow prices this winter. With favorable feed conditions in total in 1966, the expansion of beef cow herds under conditions of adequate capital and low cost forages can be profitable. However, an expansion at the expense of other livestock enterprises, especially if feed and capital are limited, is questionable.

No enterprise has felt the need for increased size plus high level production like the dairy enterprise. The substitution of capital for labor, plus improved production per cow through better feeding, breeding and disease control are essential to profitable dairying. With prospects for increasing operating costs, plus little or no market price improvements, those who plan to continue in dairying should make efficiency-strengthening moves as soon as possible.

The egg production situation is much like that for dairying. Low unit cost of production can only be achieved through efficient, large units. Egg prices should average somewhat better in 1966 than in 1965. But large volume enterprises with good cost control in rations and related items, plus minimum labor requirements, are necessary to compete and produce an adequate income.

Put Management to Work . . .

As you look back over your 1965 business, put your tools of management to work in planning for 1966. What does your January 1, 1966, net worth statement show as compared to a year ago? Does it show progress? Have your current assets that will produce income in 1966 increased faster than your current liabilities? Or have you reinvested earnings in machinery, equipment and facilities without prospects of increasing volume enough to offset the additional costs? A true and complete annual net worth statement or balance sheet can tell much about your business.

Records . . .

To be successful, any business must have an adequate accounting system to identify the resources used, how efficiently they are used and what the resulting income is. To many Iowa farmers the only incentive to keep a record is to file an income tax return. But this management tool, the summarized account book, should be the way to planning the next year's business. It can identify the sources of income, the costs of inputs, and the strong and weak phases of the farm business. In addition, the difference between the net income and change in net worth during the years shows how much was spent for living.

Pushing the pencil to check yourself annually and over time on production levels, costs and returns, plus budgeting expected returns from added inputs of capital are among the important keys to having a successful business and will play an even bigger role in 1966.

The annual difference in net income between the high profit and low profit group of farms reported in the early part of this article, would pay for 200 acres of high quality Iowa land over a 10-year period or would pay for a modern home in two years. In one year the difference in profit would assure a son or daughter a 4-year university education. The opportunity is there if the management resource is adequately used.